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SUBJECT: NEW MOROCCAN ENERGY STRATEGY HITS FAMILIAR THEMES

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Classified By: Ambassador Thomas T. Riley, Reasons 1.4 (b) and (d).

11. (C) Summary: Morocco's newly unveiled national energy strategy hits the familiar themes of diversification of supply, optimization of resources, and conservation in its effort to guarantee that the country will have sufficient energy resources available to meet a demand that is expected to grow four-fold over the 2008-2030 period. The plan was presented to the King in Oujda on July 8, and subsequently to private industry and the public on July 16 and July 21 respectively. The only minor surprise is the plan's reliance on coal as the base fuel for production of electricity. Energy Minister Benkhadra told the Ambassador on July 25 that the choice was dictated by market realities: natural gas is simply not available, and new plants cannot be built without an assured supply of fuel. She characterized the strategy as 90-95 percent complete, but said the Ministry will continue consultations with industry and civil society, with a view to finalizing it by a national energy convention, which is planned for the end of October. End Summary.

12. (SBU) The 2008-2025 strategy has consumed the Ministry of Energy for the last five months, with key officials working eighteen hour days without respite. The urgency reflected understanding that key decisions could not be delayed: with electricity demand rising 8 percent per year and already nearing the country's production capacity, action to invest in new production facilities and to select the fuels on which they would be based was essential. Strategy authors note that at current growth rates, electricity demand would increase four-fold by 2030. They also point out that additional "discontinuities" are possible as a result of such initiatives as the new national agricultural strategy, desalinization plants, rural electrification, and plans to construct new towns.

13. (C) In a tour d'horizon with the Ambassador on July 25, Energy Minister Benkhadra told him that the new strategy's key goal is to assure an adequate energy supply in the short term or pre-2013 period. She noted that lead times for construction of new energy plants have lengthened in today's tight energy markets, and one must allow at least 45-50 months for even basic coal-fired plants to come on line. With Morocco dependent on imports for 96 percent of its energy needs, the Minister emphasized, cost and availability of assured supply were the key considerations guiding the strategy's choice of coal-fired electricity generation for its base scenario. Gas is not now available on the world market, she said, and gas-fired plants cannot be built

without an assured fuel supply. She stressed that natural gas constitutes the strategy's key alternative scenario, provided "economic and assured access to a regular supply" can be secured. Thus if and when such contracts can be signed, Morocco will swiftly move to replace coal-fired plants with gas-fueled ones.

¶4. (C) Asked about prospects for obtaining natural gas from Algeria (recent press reports have indicated that Morocco continues to pursue the National Electricity Office's 2005 request to Algeria for an additional 1 billion cubic meters of natural gas), Benkhadra said that Algeria currently has indicated it does not have gas available. She added that she does not expect the situation to change until ongoing arbitration over the disputed Algerian-Spanish gas contract is resolved. She pointed out that Morocco is seeking only 4-5 billion cubic meters of gas in total, a small sum in comparison to the amount Algeria sells to Spain, but markets are so tight now that no supplies have been identified. (Note: Morocco does receive 850 million cubic meters of gas per year as a transit fee from Algeria for the Spanish contract, a total that the strategy earmarks to meet demand at peak hours. End Note.)

¶5. (SBU) Benkhadra highlighted the importance of wind energy as well, which she noted is almost price competitive with natural gas. The strategy thus foresees development of 700 MW of production capacity through the "Energipro" program by 2012. Surprisingly, the plan even mentions the possibility of export projects in this area, though it specifies they would not benefit from either state support or guarantees. Additionally, grid interconnections with Spain and Algeria will be reinforced, but with an aim to no longer be "structurally dependent" on them but to use them as a source of "economic arbitrage." Finally, the plan aims to decouple hydro-electric power from irrigation, and see it produce 400 MW within four years.

¶6. (C) Longer range, Morocco will continue to explore alternative options. These include pursuit of a program for nuclear energy, with the goal of establishing a nuclear plant by the 2020-2025 time frame. While Benkhadra confirmed that no decision on nuclear power has been taken, she stressed that the Ministry is preparing the groundwork for Morocco to do so. The IAEA has reviewed Moroccan legislation and suggested improvements, and a draft law will soon be submitted to the Secretary General of the government. Morocco is also reviewing the types of plants available from U.S., Russian, French and Korean suppliers. A key constraint remains the fact that existing scale plants would overwhelm Morocco's grid. A 1000 MW plant, Benkhadra noted, would represent nearly 20 percent of existing Moroccan electricity production, which the network could not support. If a 600-700 MW plant proves economically feasible, it would represent the "best opportunity" for Morocco. Other alternatives identified in the strategy include solar power, though Benkhadra stressed that at eight times the cost of electricity produced by natural gas, it is not price competitive, and exploitation of Morocco's bituminous deposits. A 100 MW test plant is currently planned for Tarafya to explore the economic viability of these latter resources.

¶7. (U) Beyond fossil fuels, renewable energies, and nuclear power, the plan also identifies conservation and energy efficiency as a "fourth fuel." It foresees the regular extension of the national program of priority actions that was unveiled in April, with accompanying measures to encourage energy conservation in building, industry, and transport. Among the steps envisaged, Benkhadra told the press on July 21, are working with the building industry to incorporate solar water heaters and to design energy efficient buildings, and measures to encourage drivers to replace older inefficient vehicles with newer models. The National Electricity Office (ONE) and regional distributors have also signed on to a program to distribute 22 million low-wattage bulbs over the next three years.

¶8. (SBU) Reaction to the plan to date has been positive albeit muted. Hamad Kassal, Vice President of the Confederation of Enterprises of Morocco (CGEM) called it "the first time one has put in place a coherent and clear strategy that includes the resources for its realization." Others, however, expressed regret that it did not do more to reach beyond the goal of "energy autonomy" and grapple with the new global energy order. Morocco, another CGEM member argued, should profit from its advantages and "give itself an industrial ambition in the field of new energies." For his part, Abdellah Alaoui, President of CGEM's Federation of Energy, told us that industry had reviewed the plan with the Minister on July 16 and he had warned that relying too extensively on coal may itself leave Morocco vulnerable. There is no guarantee that currently favorable pricing of coal will persist, he argued, and he suggested that in the long term energy cooperation with Algeria is essential to resolving Morocco's energy dilemma. "Reason will prevail," he argued, over "small-minded" sentiments, so that Morocco must be prepared to move rapidly to gas-powered electricity, which he argued is much more suitable to a whole range of industries, beyond being more environmentally friendly. While liquified gas remains on the table, Alaoui judged it to be too expensive, and argued that Morocco would not actively pursue it, given the negative signal it would send to Algeria.

¶9. (C) In her meeting with the Ambassador, Benkhadra said that while the plan is 90-95 percent complete, such consultations with industry will continue through the fall. If they have "pertinent elements" that we have overlooked, she said, the Ministry is open to incorporating them. The strategy will then be finalized at the national energy convention, which is scheduled for the end of October.

¶10. (C) Comment: Benkhadra inherited perhaps the government's most challenging portfolio last fall when she took over the Energy Ministry, with the need to rapidly produce a coherent strategy to head off what most view as a looming energy crisis. An able technocrat, who rose through the ranks at the National Office of Mines and Hydrocarbons (ONHYM), she has proved resilient in the face of a sometimes critical press and the not always easy relationship between ONE and the Ministry. In her conversation with the Ambassador, she confirmed our assessment that while framed as a long-term approach, the new strategy is just as much an interim or stop-gap measure, intended to put into place sufficient capacity to meet immediate needs, and thereby buy time for implementation of more permanent solutions. There is thus not much daylight between Benkhadra and those who question reliance on coal: when circumstances permit, she too is ready to make the switch, but does not believe that Morocco now has that luxury. End Comment.

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